

State of New Hampshire Treasury

Investment Guidelines for Operating Funds

PURPOSE

The purpose of these general guidelines is for the accomplishment of the stated objectives while ensuring compliance with state and federal laws. These guidelines are also designed to outline internal controls over the safeguarding of state assets.

INVESTMENT OBJECTIVE

State funds will be invested to 1). Preserve the value and safety of the principal, 2). Maintain liquidity appropriate for short term cash needs and 3). Optimize the rate of return on investments consistent with the goals of safety and liquidity. When making individual investments, the primary considerations will be risk rating, liquidity, income and maturity. It is recognized that income is a product of yield to maturity, therefore; fixed income securities may be purchased either at a discount to minimize initial cash outlay and take advantage of capital appreciation, or at a premium to optimize cash flow when conditions warrant.

These guidelines apply to all operating funds under the supervision of the State Treasury. They do not apply to funds belonging to the New Hampshire Turnpike System or to any trust or custodial funds, all of which have separate sets of investment guidelines.

LEVELS OF AUTHORITY

1. The Treasurer is authorized to invest or direct a Deputy Treasurer or Assistant Treasurer to invest the State's funds within the established guidelines.
2. The Treasurer must be notified of purchases or sales of securities with a maturity of great than 7 days and at a par value of over 20 million dollars in a single day.
3. The Treasurer, Chief Deputy, Deputy Treasurer or Assistant Treasurer is authorized to approve purchases or sales of securities. No formal approval is required for investments in overnight or weekend repurchase agreements which would be transacted as part of an overnight sweep (investment) program.

RESPONSIBILITIES

1. The Treasurer or designate will document the rationale for each security transaction. Short term investments (less than one year) do not require such documentation.
2. The Treasurer or designate is responsible for ensuring the completion of all paperwork and transactions pertinent to the execution and confirmation of buy/sell orders; for instructing money market dealers with respect to arrangement for payment or collection of monies resulting from the purchase, sale or redemption of securities; and for the maintenance of all necessary records of current holdings. This paperwork shall include, but is not limited to appropriate accounting and internal documents required to track the movement of funds through the State's integrated financial system and the treasury's banking system.

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3. Upon recognition that the investment portfolio has fallen out of compliance with these guidelines, the Treasurer or designate has thirty days to take such corrective action to remedy any violations without loss of any principal.

APPROVED INVESTMENTS

The following are approved investments as defined in RSA 6:8, 387:6, 387:6-a, and 387:14:

The New Hampshire Public Deposit Investment Pool

United States Treasury Securities or securities with an unconditional guarantee of principal and interest by the federal government

Federal Agency Securities - Federal Farm Credit System, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association, and Tennessee Valley Authority.

Repurchase Agreements – the underlying security must be U.S government or agency securities with a market value equal to 102% of principal, and executed through any New Hampshire or Massachusetts bank that has assets in excess of \$500 million and has either the strongest rating as measured by Veribanc Inc. or has a long term debt rating of AA- or better as rated by Standard & Poor's and Fitch or Aa3 or better as rated by Moody's. Maximum maturity may not be greater than 1 year.

Repurchase Agreements may also be executed through any of the primary government security dealers as designated by the Federal Reserve.

Commercial Paper - All commercial paper must be from issuers having an A1/P1 rating or better and an AA- or better long term debt rating from one or more of the primary rating agencies (Standard & Poors, Moody's, and Fitch). The maximum maturity of commercial paper will be 30 days.

Money Market Funds - Shares of funds which hold diversified portfolios and follow standard rules for such funds as issued by the Securities and Exchange Commission.

Certificates of Deposit - CDs of State or federally chartered banking institutions with a branch in New Hampshire are approved. The maximum maturity of a CD will be one year and the bank must have the highest rating as measured by Veribanc Inc.

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Fixed Income Mutual Funds – Shares of funds which hold diversified portfolios of fixed income securities are permitted. The average maturity of the investments in such a fund shall not exceed 5 years.

CONSTRAINTS

Maturity/Liquidity

Consideration is given to the cashflow and maturity characteristics of securities in evaluating liquidity. To facilitate the market liquidity of a future sale, individual security (not CDs or repurchase agreements) purchases should generally be a minimum par value of \$5 Million. The weighted average maturity of the portfolio should be less than 180 days.

Foreign Currency

All investments will be denominated in United States dollars.

Safekeeping

Securities purchased by the State should be delivered against payment and either held by the Federal Reserve Bank or in a custodian account by one of the State's principal banks.

Reverse Repurchase Agreements

Reverse Repos are not permitted under current statute. Securities lending is permitted in conjunction with an approved plan and a formal agreement with a custodian bank.

Derivative Securities

Investments in certain structured notes (not collateralized mortgage obligations), swaps, futures and options are permitted in conjunction with a formal risk management strategy and the explicit approval of the State Treasurer.

Fixed Income Mutual Funds - The amount of the overall portfolio allocated to fixed income mutual funds shall not exceed 25% of assets.

REVIEW

The Treasurer must review and approve the investment guidelines at least biennially.

This policy was last reviewed and approved in April 2004.